



Misses estimates by 18%, NSCI disappoints

- Net income misses SFC and consensus estimates by c.18%. NSCI disappoints (-12% versus expectations) with NIM proxy declining 35 bps Q/Q
- Support from gains on non-trading investments, in contrast to sector, bolstered non-interest income

4Q15 profit below our expectations

Arab National Bank (ARNB) posted 4Q15 net profit of SAR 594 mln, which was below our and consensus estimates (c.18% deviation versus SFC and Consensus). At the NSCI level, the bank underperformed versus estimates, down 10% Q/Q and 4.5% versus 4Q14. This is in contrast to the sector, as banks who have reported thus far have posted 3.2% Q/Q and 7% versus 4Q14 growth in NSCI. ARNB's NIM (using proxy until detailed numbers are available) has declined by 35 bps Q/Q, whilst other banks have reported a 10 bps increment in NIM. This may have been driven by large uptick in higher cost deposits, but appears relatively unlikely. We estimate that the sharp NIM decline may have been driven by the bank selling long-dated investments in anticipation of higher interest rates early in 4Q. This would also explain why ARNB management reports higher gains on non-trading investments, while other banks have reported declines. Deposits and loans grew by 2.4% Q/Q and 2.1% Q/Q respectively, while simple LDR ticked lower by 22 bps Q/Q.

Non-interest income disappoints; credit quality holding up

Non-interest income has disappointed which according to management commentary was due to lower banking fees, which partly offset by increase in gains on non-trading investments and other operating income. The bank recorded a rise in its investment portfolio on a Q/Q basis (up 8.2%), which also is in contrast to the sector, which thus far has seen investment portfolios shrink by 8.5%. Expenses also rose by 12.3% Q/Q, which management attributes to higher provisioning against credit impairment and employee costs. Higher employee costs was a risk we highlighted as a risk in our initiation report, which may also play a role in 2016 profitability. While provisioning against credit impairment was higher Q/Q, it was below our expectations, which suggests that credit quality is holding up well given the operating environment. We however forecast that cost of risk has bottomed out in 2015, and will rise going forward.

BUY rating with TP of SAR38

Since we initiated coverage of ARNB with a BUY rating and SAR 38 target price, the stock has declined by 23% (slightly underperforming the sector). The 4Q15 results raise risk associated with our rating, as of now we see no reason to re-rate the stock unless detailed financial statements indicate higher risks with respect to core demand deposits or credit quality. In our model and valuation update once detailed financial statements are available, we see an upside risk to NIM forecasts given above forecast rise in interest rates, and we are paring dividend forecasts due to tighter sector liquidity and regulatory guidelines (to SAR 1.05 and SAR 1.20 2016E and 2017E respectively).

SAR mln	4Q15	3Q15	4Q14	Q/Q %	Y/Y %	4Q SFC	Dev %	4Q Cons.	Dev %
Net Commission Income	901	995	942	-9.5	-4.4	1,020	-11.7	-na-	
Other Operating Income	486	475	506	2.4	-3.8	577	-15.7		
Total Income	1,387	1,470	1,448	-5.6	-4.2	1,597	-13.1	1,505	-7.8
Expenses	793	706	819	12.3	-3.2	871	-9.0		
Net Income	594	764	629	-22.2	-5.5	726	-18.1	721	-17.6

Total Assets	170,421	164,863	164,668	3.4	3.5
Investments	33,239	30,717	33,876	8.2	-1.9
Net Loans	115,144	112,747	103,724	2.1	11.0
Deposits	135,687	132,522	129,631	2.4	4.7
Simple LDR	84.86	85.08	80.01	(22)	485

Source: Company, SFC, Bloomberg

Rating Summary

Recommendation	BUY
12-Month Target price (SAR)	38.00
Upside/(Downside)	75%

Stock Details

Last Close Price	SAR	21.1
Market Capitalization	SAR mln	21,050
Shares Outstanding	mln	1,000
52-Week High	SAR	35.50
52-Week Low	SAR	20.80
Price Change (3M)	%	-23.4
6-Mth ADTV	mln	0.2
EPS 2016E	SAR	3.51
Reuters / Bloomberg	1080.SE	ARNB AB

Source: Tadawul, *as of 18 Jan 2016

Estimates

SAR	2016E	2017E
EPS	3.5	4.0
DPS	1.05	1.20
Net Interest Margin (%)	2.8%	3.1%

Source: Tadawul

Price Multiples

	2016E	2017E
P / E	6.0x	5.3x
P / B	0.9x	0.8x
Dividend Yield (%)	4.8%	5.5%

Source: SFC

1-Year Share Performance



Source: Bloomberg

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Rating Framework

BUY

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

SELL

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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